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Message Text

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70
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S E C R E T MOSCOW 14016

EXDIS

FROM ROBINSON

E. O. 11652: GDS
TAGS: ETRD, UR, US
SUBJ: SOVIET GRAIN SALE NEGOTIATION

REF: MOSCOW 13954

1. SUMMARY: I MET FOR 2 1/2 HOURS TODAY WITH MINISTER PATOLICHEV, FIRST DEPUTY MINISTER KUZ'MIN AND OTHER REPRESENTATIVES OF THE MINISTRY OF FOREIGN TRADE FOR A DISCUSSION OF THE LONG-TERM GRAIN AGREEMENT. I WAS ACCOMPANIED BY AMBASSADOR STOESSEL, HINTON, BELL OF USDA, FELDMAN (STATE DEPUTY LEGAL ADVISER), AND NILES (EMBASSY ECONOMIC/COMMERCIAL OFFICER). FROM THIS MEETING WE

A. NARROWED OUR DIFFERENCES ON THE SIX BASIC PROBLEMS TO BE RESOLVED IN THEIR PROPOSED DRAFT AGREEMENT AS REPORTED IN REFTEL,

B. AGREED THAT WE WOULD SEEK A COMPLETE RESOLUTION OF THESE ISSUES DURING MY STAY IN MOSCOW, WITH THE OBJECTIVE OF EXECUTING A FIVE-YEAR GRAIN SALES AGREEMENT, AND

C. TO FURTHER THIS PROCESS, THE U.S. SIDE WOULD PREPARE A REVISED DRAFT AGREEMENT WHICH WILL BE DISCUSSED IN DETAIL AT A MEETING WITH THE FOREIGN TRADE MINISTRY OFFICIALS SCHEDULED FOR 9:30 A.M. TOMORROW, THURSDAY, OCTOBER 2.
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WE HAVE AGREED IN PRINCIPLE TO AN ANNUAL CONTRACT TONNAGE OF 6 FIRM PLUS 2 OPTIONAL WITH CONDITIONS STILL TO BE NEGOTIATED. HOWEVER, IT IS APPARENT THAT WE WILL HAVE TO COMPROMISE ON THE GENERAL ESCAPE CLAUSE ISSUE BEFORE WE CAN FINALIZE THIS AGREEMENT. WE WILL CABLE A REVISED DRAFT AGREEMENT STILL IN LINE WITH MY BASIC INSTRUCTIONS, PLUS TWO SIDE LETTERS, ONE DEALING WITH THE ESCAPE CLAUSE QUESTION AS IT APPLIES TO BOTH THE FIRM AND OPTIONAL TONNAGE, AND THE SECOND RELATING TO MARITIME MATTERS, BOTH OF WHICH WILL REQUIRE YOUR REVIEW AND APPROVAL. THESE WILL ALSO HAVE TO BE CLEARED WITH SECRETARY BUTZ AND SEIDMAN, ET AL., WHICH WE HOPE CAN BE COMPLETED PROMPTLY TO AVOID NEGOTIATING DELAYS ON THIS END. END SUMMARY.

2. WE REVIEWED IN SOME DETAIL THE SIX BASIC ISSUES ON THE SOVIETS' REVISED DRAFT WHICH I HAD DISCUSSED IN DETAIL IN OUR MEETING WITH PATOLICHEV YESTERDAY. PATOLICHEV RESPONDED WITH A LENGTHY SPEECH WHICH EXPANDED ON THE ARGUMENTS HE HAD MADE YESTERDAY. APPARENTLY HE FELT THAT IT WAS IMPORTANT TO HAVE HIS POSITION ON THE RECORD WITH HIS FOREIGN TRADE MINISTRY ASSOCIATES.

3. AFTER FURTHER DISCUSSION WE NOW APPEAR TO HAVE SOLVED THREE OF THE SIX REMAINING ISSUES AS FOLLOWS:

A. WE HAVE AGREED TO AN ANNUAL TONNAGE FORMULATION OF 6 FIRM PLUS 2 OPTIONAL. ALTHOUGH NOT YET AGREED, WE PROPOSE THAT ANNUAL OPTIONAL TONNAGE BE AVAILABLE ONLY WHEN THERE IS NOT "A SERIOUS SHORTAGE IN THE SUPPLY OF GRAIN IN THE U.S." WE INTEND TO DEFINE THIS BY SIDE LETTER WHICH WILL ESTABLISH THAT THERE IS A "SERIOUS SHORTAGE" WHEN TOTAL GRAIN SUPPLY FALLS BELOW 225 MILLION METRIC TONS. THIS COULD PROVIDE AN IMPORTANT PROTECTION WHICH WOULD TEND TO OFFSET ANY WEAKENING IN THE TERMS OF THE GENERAL ESCAPE CLAUSE RELATING TO THE FIRM 6 MILLION TON COMMITMENT AS DISCUSSED BELOW.

B. THE SOVIETS HAVE ACCEPTED OUR POSITION THAT GRAIN PURCHASES SHOULD BE EVENLY SPACED THROUGHOUT THE YEAR AND HAVE AGREED THAT PURCHASES WOULD BE MADE SUFFICIENTLY IN ADVANCE OF ACTUAL SHIPMENTS TO PERMIT REGULAR DELIVERIES COMMENCING OCTOBER 1, 1976. THIS REPLACES OUR PROPOSAL THAT PURCHASES BE MADE AT

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LEAST THREE MONTHS IN ADVANCE, BUT I BELIEVE WE CAN ACCEPT THEIR FORMULATION, WHICH MEETS OUR BASIC OBJECTIVE.

C. THE SOVIETS CONFIRM THAT ALL GRAIN PURCHASED UNDER THIS AGREEMENT WILL BE SOLELY FOR CONSUMPTION IN THE USSR. THE PREVIOUS MISUNDERSTANDING ON THIS POINT RESULTED FROM SOME CONFUSION IN TRANSLATION.

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4. THREE ISSUES REMAIN TO BE RESOLVED, OF WHICH THE GENERAL ESCAPE CLAUSE PROBLEM IN MY VIEW IS THE MOST SERIOUS HURDLE, AS DISCUSSED BELOW.

A. THE SOVIETS ARE ADAMANT IN WANTING THE AGREEMENT TO APPEAR BALANCED BETWEEN THE TWO PARTIES IN TERMS OF BOTH RIGHTS AND RESPONSIBILITIES. THEIR DRAFT GIVES SOME PROTECTION FOR THE U.S. BY PROVIDING FOR CONSULTATION WITH A VIEW TO REACHING A MUTUAL AGREEMENT ON REDUCTION IN GRAIN DELIVERIES WHEN "THERE IS OR MAY BE A SERIOUS SHORTAGE IN THE SUPPLY OF GRAIN IN THE U.S." THEY HAVE PROPOSED, HOWEVER, AN EQUAL RIGHT TO CONSULT WITH THE U.S. WITH A VIEW TO REACHING A MUTUAL AGREEMENT FOR REDUCED GRAIN PURCHASES WHEN THEY FACE "A SERIOUS GRAIN SURPLUS IN THE USSR." FOR TACTICAL AND PSYCHOLOGICAL REASONS, WE PROPOSE ACCEPTANCE OF THE SOVIETS' DRAFT, BUT WITH A DEFINITIVE UNDERSTANDING OF WHAT THE PARTIES INTEND UNDER THIS CLAUSE TO BE COVERED IN A SEPARATE SIDE LETTER. WE WILL CABLE A DRAFT OF THIS LETTER, BUT IT WILL ESTABLISH THAT

(1) "A SERIOUS SHORTAGE IN THE SUPPLY OF GRAIN IN THE UNITED STATES" IS LESS THAN 225 MILLION METRIC TONS;

(2) UNDER THIS CONDITION, THE 2 MILLION TON OPTION WOULD NOT BE AVAILABLE;

(3) UNDER THIS CONDITION, THE U.S. MAY ALSO REDUCE THE 6 MILLION COMMITMENT, BUT IN NO EVENT WILL SHIPMENTS TO THE USSR UNDER THE LONG-TERM AGREEMENT BE REDUCED MORE THAN FOR OTHER MAJOR REGULAR CUSTOMERS PURCHASING U.S. GRAIN; AND

(4) "A SERIOUS GRAIN SURPLUS IN THE USSR" IS A CONDITION WHICH COULD ONLY OCCUR AFTER THREE CONSECUTIVE YEARS OF SECRET

BUMPER CROPS PROVIDING SURPLUSSES, AND THEN ONLY WHEN STORAGE CAPACITY WOULD BE EXCEEDED IN THE USSR.

THERE IS YET NO ASSURANCE THAT THE SOVIETS WOULD ACCEPT THIS LATTER FORMULATION AS IT WILL NOT BE DISCUSSED UNTIL WE ARE AUTHORIZED TO MAKE THIS PROPOSAL.

B. WE WILL ATTEMPT TO STATE THE PRINCIPLE OF STOCK ACCUMULATION AND LEVELING OUT ANNUAL IMPORT DEMAND IN THE PREAMBLE TO THE AGREEMENT. HOPEFULLY, A SOMEWHAT WATERED-DOWN VERSION OF OUR INITIAL DRAFT WILL PROVE TO BE ACCEPTABLE.

C. THE QUESTION OF THE MARITIME AGREEMENT MUST BE RESOLVED IN SOME FORM PRIOR TO THE EXECUTION OF THE LONG-TERM AGREEMENT. HOWEVER, WE ARE PROPOSING THAT WE ACCEPT THE SOVIETS' VERSION OF

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THIS PROVISION, WHICH STATES THE INTENT OF BOTH PARTIES THAT THE PRESENT MARITIME AGREEMENT WHICH TERMINATES ON DECEMBER 31, 1975, BE EXTENDED TO MAKE IT COTERMINOUS WITH THE GRAIN AGREEMENT. TO ASSURE CONTINUANCE OF THE KEY PROVISIONS OF THE EXISTING MARITIME AGREEMENT IN ITS EXTENSION, WE ARE PROPOSING A SIDE LETTER WHICH WILL ESTABLISH THAT

(1) THE EXTENDED AGREEMENT WILL TERMINATE ON SEPTEMBER 30, 1981 (THE GRAIN AGREEMENT TERMINATION DATE);

(2) THE EXISTING CARGO-SHARING FORMULA WILL BE CONTINUED; AND

(3) CHARTER RATES WILL BE ESTABLISHED BY MUTUAL AGREEMENT FOLLOWING PRINCIPLES ESTABLISHED IN THE IMPLEMENTATION OF THE PESENT AGREEMENT.

5. WE ARE PREPARING A REVISED DRAFT OF THE GRAIN AGREEMENT WHICH I BELIEVE TO BE WITHIN OUR PRESENT AUTHORITY, SUBJECT TO THE CLARIFICATION TO BE COVERED IN SIDE LETTER AGREEMENTS. WE WILL PROCEED WITH NEGOTIATIONS WITH THE SOVIETS ON THE BASIS OF THIS DRAFT, MAKING CLEAR THAT THIS IS SUBJECT TO AGREEMENT ON THE SIDE LETTERS, WHICH WILL NOT RPT NOT BE PRESENTED UNTIL AFTER AUTHORITY IS RECEIVED FROM WASHINGTON. WE WILL CABLE DRAFTS OF THE REVISED AGREEMENT AND OF THE SIDE LETTERS LATER TODAY AND ARE HOPEFUL THAT INTERAGENCY CLEARANCE MAY BE

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OBTAINED PROMPTLY TO AVOID NEGOTIATING DELAYS ON THIS END.

6. WE MAY ALSO REACH AN UNDERSTANDING ON THE BASIC TERMS OF AN OIL AGREEMENT DURING THIS VISIT. WE WILL BE MEETING WITH DEPUTY MINISTER ALKHIMOV ON THE OIL NEGOTIATIONS TOMORROW, THURSDAY, OCTOBER 2.
STOESSEL
NOTE BY OC/T: DOWNGRADED FROM NODIS CHEROKEE TO EXDIS PER MORAN S/S-O.

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